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Scholars generally agree that the three decades following World War II were a “golden age” for welfare states. Across Europe and North America, new social programs were enacted and existing programs were expanded. Government social spending increased dramatically. Poverty and inequality diminished. At the same time, the power of left-wing political parties was relatively high, leading many scholars to link the remarkable growth of welfare states to the ascendance of these parties (Esping-Andersen 1985; Huber and Stephens 2001; Shalev 1983).

Scholars sharply disagree over what has happened since the mid-1970s. At one end of the spectrum, we find references to various crises of the welfare state – fiscal, political, ideological (Kotlikoff and Burns 2004; Mishra 1984; Offe 1984; Stoesz and Karger 1992). Less ominously, several studies find evidence of retrenchment as countries tightened up eligibility for social programs, lowered benefits, and introduced forms of privatization (Allan and Scruggs 2004; Clayton and Pontusson 1998; Huber and Stephens 2001; Korpi and Palme 2003; Pontusson 2005). Or, retrenchment occurred indirectly as governments failed to address growing social needs (Hacker 2004; Taylor-Gooby 2004). Other scholars are more optimistic and stress the resilience of modern welfare states. “Thus in most of the affluent democracies, the politics of social policy centers on the renegotiation, restructuring, and modernization of the terms of the post-war social contract rather than its dismantling” (Pierson 2002, 370; see also Brooks and Manza 2007; Pierson 1996; Wilensky 2002). Considering that scholars differ about what happened in recent decades, it is not too surprising that they disagree about why as well. While some believe that political parties are still central to the development of welfare states (Allan and Scruggs 2004; Korpi and Palme 2003), others argue that interest groups (Pierson 1996), changes in the global economy (Mishra 1999), demographic pressures (Kotlikoff and Burns 2004), or public opinion (Brooks and Manza 2007) have become equally if not more significant.
Much of the recent literature relies on statistical analysis of aggregate measures from a number of wealthy democracies. This chapter, in contrast, offers a detailed portrait of one country – the United States. Although a single case cannot settle the disputes mentioned above, it may suggest ways of reconciling competing arguments and may identify some of the causal mechanisms at work. Analytically, studying the American welfare state has its advantages and disadvantages. Poverty and inequality are more prevalent in the United States than any other wealthy democracy. Inequality has been growing faster in the U.S. than in most countries. The American welfare state is usually considered to be smaller than its European relatives (Kenworthy and Pontusson 2005; Mahler and Jesuit 2006; Smeeding 2006). Moreover, the historic 1996 welfare reform in the United States is one of the best-known examples of retrenchment. It may appear, then, that I have stacked the deck in favor of those who argue that welfare states have experienced major stress in recent decades.

So let me be clear: I am not claiming that recent trends in U.S. social policy are typical. They may be, but that conclusion will depend on further study. What we observe in the U.S. case, however, is an intriguing paradox that previous cross-national studies have overlooked. Since the mid-1970s, new social programs have been introduced and social spending has continued to increase. In that sense, the American welfare state has been more than resilient; it has grown. Nevertheless, poverty and inequality have also increased, which are classic symptoms of retrenchment (or perhaps even crisis). The American welfare state is doing more but accomplishing less than it did in the immediate postwar era. The first part of this chapter documents these surprising changes in social policy.

The second part of the chapter analyzes the role of political parties in shaping the modern American welfare state. The United States is a good test case because party control of
government has varied in recent decades. There have been periods of unified Democratic
control, divided government, and unified Republican control. If parties still matter, and matter
the same way as in Europe, then we would expect to see expansion when Democrats controlled
government, retrenchment when Republicans were in charge, and something close to gridlock
under divided government. In a similar fashion, we should be able to link changes in party
control to important outcomes such as poverty and inequality. This is where the unusual nature
of the American case could pay off: with such a poor record of combating poverty and
inequality, the United States should make it easier to detect the influence of parties than in
countries where poverty is lower and inequality has grown less rapidly.¹ Unlike statistical
analysis of many countries, the case study design of this chapter allows us to investigate more
fully the strategies of both major parties as they tried to influence social policy.

The American Welfare State since 1975

The “welfare state” is a rich concept, and many scholars have wisely chosen to
distinguish among multiple dimensions. Building on a framework commonly used in the public
policy literature (e.g., Peters 2004), I will analyze recent trends in policy choices, outputs, and
impacts. Each represents a distinct stage in the policy process. Public officials have the greatest
degree of influence over policy choices as they enact legislation, design regulations, and issue
court rulings. The Social Security Act of 1935 is probably the most famous policy choice in the
history of the American welfare state. In a moment, I will identify significant policy choices
since 1975 that created, replaced, or terminated social programs in the United States.²

Public officials have somewhat less control over policy outputs such as government
spending. Although officials establish a fixed budget for some social programs, in many cases
they choose to set eligibility rules and benefit levels but not total spending. This is true of most budgetary entitlements. The actual amount of money spent on entitlements depends partly on the state of the economy and on demographic trends. A strong economy will reduce demand for Food Stamps; more retirements will lead to greater spending on Social Security. Scholars typically use social spending as a fraction of GDP (Gross Domestic Product) to measure the size of each nation’s welfare state. This measure has some drawbacks, and other measures of social spending may be more meaningful. I will compare recent trends in U.S. social spending using a few alternative indicators.

Policy impacts, also known as policy effects or outcomes, are arguably the most important dimension to analyze. After all, the highest justification for a welfare state is not its ability to pass laws or spend money. Welfare states are supposed to help people in need. Specifically, welfare states are supposed to reduce poverty and inequality. Unfortunately for national officials, they have less control over these impacts than they do over legislation or spending. Individuals may not work hard, well-paid men may marry well-paid women, local school systems may function poorly, companies may move their operations overseas – all these factors and more can aggravate poverty or inequality.

Policy choices

The classic story of the American welfare state has been built around two historic moments. During the mid-1930s, the New Deal ushered in Social Security, unemployment insurance, “welfare” (then known as Aid to Dependent Children), public housing, and national minimum wage laws. The second moment, peaking in 1964-65, witnessed the creation of Medicare, Medicaid, Food Stamps, and Head Start – all part of a Great Society. Most of the social
programs that we associate with the modern American welfare state originated during these two brief eras. In both instances, the legislative debates were visible and contentious. Nothing comparable has happened since the mid-1960s (Howard 2007a).

And yet, the United States has continued to create social programs. Just because these innovations have been spread out over several decades, and sometimes enacted without much fanfare, doesn’t mean that we should ignore them. Most of these new programs qualify as family policy or health policy, two areas where the United States has long been considered a laggard relative to other welfare states. The Earned Income Tax Credit (EITC), which was enacted in 1975, provides income support to millions of low-income families with dependent children. The Child Tax Credit (1997) benefits millions more families and is not means-tested. These tax credits function like European-style family allowances. Together, they cost the U.S. government almost $90 billion in foregone revenues and tax refunds in 2006 (U.S. Congress, Joint Committee on Taxation 2007). Even in the United States, that is a lot of money. It is far greater than what the government spends on welfare, unemployment insurance, Food Stamps, or public housing. The other key addition to family policy came in 1993 when officials enacted the Family and Medical Leave Act (FMLA). The FMLA mandated twelve weeks of parental leave, a first for the nation.

Many observers consider the failure of the Clinton health plan (1993-94) to be the defining episode in recent health policy. Still, there were successes before and after the Clinton plan. The United States issued regulations in 1985 and again in 1996 to make private health insurance more available. The first set, known as COBRA regulations (after the omnibus bill they were folded into), was designed to make health insurance more portable for individuals who were between jobs. The second set, HIPAA (Health Insurance Portability and Accountability
Act), was supposed to make it harder for private insurers to deny coverage to people with pre-existing medical conditions. The Emergency Medical Treatment and Labor Act of 1986 compelled virtually every hospital to provide emergency care to all patients, even those without health insurance. In addition to new social regulations, new spending programs took root. The State Children’s Health Insurance Program (SCHIP) was enacted in 1997. The goal of this new block grant was to extend health insurance to low-income children, especially those who were “too rich” for the existing Medicaid program. Finally, and rather dramatically, U.S. officials created a large prescription drug benefit for the elderly in 2003. Annual spending for this benefit is soon expected to exceed $50 billion (Henry J. Kaiser Family Foundation 2008; Howard 2007a).

Apart from these new social programs, the other major breakthrough occurred in disability policy. The Americans with Disabilities Act (ADA) became law in 1990. These regulations compelled innumerable public agencies and private businesses to make greater accommodations for their disabled customers and employees. One of the primary motivations for the ADA was to make it easier for the disabled to work. In particular, the ADA would help people who could not meet the strict eligibility requirements of disability insurance, yet who clearly faced difficulties in the job market because of some handicap. Without such help, many of these individuals might have to rely on public assistance (Howard 2007a).

At the same time, some social programs have been replaced or eliminated. The most prominent example came in 1996 when officials replaced Aid to Families with Dependent Children (AFDC), the core “welfare” program, with Temporary Assistance for Needy Families (TANF). This was not a simple one-for-one exchange: AFDC was a budgetary entitlement, but spending on TANF was capped; AFDC imposed no time limit on recipients, but TANF did. The
goal, clearly, was to reduce government support for poor families with children. The current TANF caseload is less than half the size of the AFDC caseload circa 1996. On a more modest scale, officials replaced one small job training program (CETA) with another (JTPA) in 1982. The best example of program termination occurred in 1981. As officials were cutting the budgets of several social programs, they completely eliminated public service employment (PSE). At its peak in the late 1970s, PSE employed 725,000 people. Many of these people were teenagers or racial minorities who had great difficulties finding jobs in the private sector (Mucciaroni 1990; Weaver 2000). The other terminations were few in number and had less impact.

On balance, policy choices in recent decades have favored expansion of the American welfare state. National officials have used a variety of policy tools – tax credits, social regulations, grants – to increase the number of U.S. social programs. New programs did not emerge all at once, as they did in the mid-1930s and the mid-1960s. The record since 1975 has been a fairly steady stream of innovation. And while there have been setbacks, the same was true of earlier eras. The Clinton plan was certainly not the first time in U.S. history that national health insurance had been defeated. Likewise, a number of public jobs programs created during the New Deal, whose collective impact was far greater than PSE, were phased out in the 1940s (Amenta 1998).

Policy outputs

Short of termination, many social programs have been cut back since the 1970s, and that may have blunted whatever impact these new programs had on the overall size of the American welfare state. To cite a few examples, officials raised the normal retirement age for Social
Security from 65 to 67, which reduced the number of years that people can collect benefits. It became more difficult to qualify for disability insurance in the 1980s. The 1996 welfare reform law included large cuts to the means-tested Food Stamps and Supplemental Security Income programs, most of them affecting recent immigrants. On the other hand, some social programs have been deliberately enlarged. The Earned Income Tax Credit was expanded on three separate occasions. Eligibility for Medicaid was broadened several times between 1984 and 1990 (Howard 2007a; Katz 2001).

To gauge the net impact of all these changes, we can examine trends in social spending. According to the OECD (Organisation for Economic Cooperation and Development), the United States devoted 13.3 percent of GDP to its welfare state in 1980. This measure is what most studies refer to as a nation’s “welfare state effort,” and it includes public spending at all levels of government. By 2003, the most recent year available, that figure had risen to 16.2 percent. While the rate of increase was slower than in previous decades, there definitely was growth. We see similar trends in other affluent democracies. The welfare states in the EU-15, a set of European nations, expanded from an average of 20.6 to 23.9 percent of GDP between 1980 and 2003. The Canadian welfare state grew from 14.3 to 17.3 percent of GDP (OECD n.d., 2007a).^{4}

These figures understate the true level of social spending because they omit a variety of tax expenditures, or what the OECD calls tax breaks for social purposes (TBSPs). Many countries have created special provisions in their tax codes to address a variety of social problems, and this indirect spending deserves to be counted just as much as traditional forms of direct spending. Tax expenditures have been quite common in the United States and amounted to 2.1 percent of GDP in 2001. Besides the Earned Income Tax Credit and Child Tax Credit, notable examples include tax breaks for employer-provided pensions and health insurance, and
the home mortgage interest deduction. Since 1980, the largest of these tax expenditures have grown faster than traditional forms of social spending (Adema and Ladaique 2005; Howard 2007b).

Increased social spending was impressive on several counts. It occurred even as the growth in overall government spending was negative or close to zero in many OECD countries. Thus, the welfare state has accounted for a gradually increasing share of government spending in the United States and abroad. One might argue that this growth simply reflected greater social needs, particularly the aging of the population. Castles (2004) has calculated the ratio of social spending to dependents – defined as people over the age of 65 plus all working-age adults who are unemployed – and found that the United States spent more per dependent in 1998 than it did in 1980. If one creates a comparable ratio for social spending and the poverty population, the story remains the same: the ratio is larger now than it was a quarter century ago. For the entire population, real social spending per capita has also increased substantially in the United States since 1980. Finally, one might ask whether the rapid growth in medical costs has been largely responsible for the growth in social spending. It certainly has played a part, but the public share of total health spending in the United States has grown, too (OECD 2007b). Changes to Medicaid and the creation of SCHIP helped increase the government’s role in paying for medical care. The new drug benefit for the elderly will help sustain this trend.

Policy impacts

So far, there is little evidence of crisis or retrenchment. Even “resilience” may not be wholly accurate, for the United States has done more than hold its ground. Since 1975 the American welfare state has been expanding, albeit less rapidly and less dramatically than in
earlier eras. Yet, at the same time, the American welfare state has apparently lost its ability to fight poverty and inequality. This pattern is both puzzling and troubling.

There was a time, not so long ago, when the United States made dramatic progress against these social ills. The nation cut the poverty rate almost in half (from 22.2 to 12.3 percent) between 1960 and 1975. Poverty dropped for whites and blacks, young and old, men and women, and for two-parent and single-parent families. Income inequality dropped sharply around World War II. After that, the trend was mixed: the share of national income controlled by the richest ten percent stayed fairly constant between 1945 and 1975, while the share controlled by the richest one percent dropped gradually (DeNavas-Walt, Proctor, and Smith 2007; Piketty and Saez 2003).

The record since the mid-seventies has been much worse. Poverty stopped declining. Instead, it has fluctuated between 11 and 15 percent, depending on the economy. Although the rate was the same in 1975 and 2006, the U.S. economy was just pulling out of recession in 1975, whereas recovery from the 2001 recession was well under way by 2006. Severe poverty, meaning income less than half the poverty line, increased from 3.7 to 5.2 percent of the population between 1975 and 2006. In addition, income inequality has been worsening. The most common indicator is the Gini coefficient that ranges from 0 (total equality) to 1 (total inequality, i.e., one person has all the income). According to the Luxembourg Income Study, the Gini coefficient in the United States was 0.318 in 1974. By 2004, it had risen to 0.372. The U.S. Census Bureau, using a different methodology, calculated that the Gini coefficient moved from 0.395 to 0.470 during this period. Income shares are another way to capture inequality. The richest one-fifth of the nation controlled 50 percent of national income in 2006, up from 44 percent in 1975. The richest of the rich saw their incomes grow even faster (Piketty and Saez 2003).
While most of the debate over inequality has focused on income, differences in wealth have been much larger. The richest one-fifth of U.S. households controlled almost 85 percent of the nation’s wealth in 2004, while the richest one percent controlled over one-third of all wealth. Like income, wealth has become more concentrated. The Gini coefficient for net worth was already an astonishing 0.799 in 1983, and it rose to 0.829 by 2004 (Wolff 2007).

The United States has not been the only country experiencing difficulties. Income inequality has grown in Australia, Canada, Germany, Italy, Norway, Sweden, and the United Kingdom in recent decades. Poverty rates have remained constant or slightly increased in a number of wealthy democracies (Kenworthy 2008; Luxembourg Income Study n.d.). The combination of spending more on social welfare and achieving less has thus become more common among nations. This insight may help reconcile some of the conflicting judgments discussed at the beginning of this chapter. Crisis, retrenchment, and resilience may depend on which particular features of the welfare state are being studied.

Quite possibly, the American welfare state has been doing more without accomplishing more because the U.S. economy has been generating more poverty and inequality than it used to. To test this argument, we need to know how much money people had before taxes and government transfers, or what are sometimes referred to as “market poverty” and “market inequality.” Market poverty rates have gradually increased and decreased in recent decades with no clear upward trend. Market inequality, on the other hand, definitely has increased (Kenworthy 2008; U.S. Census Bureau 1992, 2001, 2007). We might conclude that changes in
the U.S. economy have been widening the gap between rich and poor, and that public policy has been slow to adapt (Hacker 2004).

While true, and important, this conclusion leads us to focus on government inaction, and yet we know that the United States has been creating a number of new social programs and increasing social spending. Elected officials have not ignored the plight of citizens trying to afford health care and balance the demands of work and family. Officials have tried to help some of these people – particularly those in the middle and upper-middle classes. Recent regulations designed to shore up private health insurance (COBRA and HIPAA) have helped workers who have such insurance, and they tend to be well-educated professionals, union members, and public employees. The Family and Medical Leave Act had a large exemption for small businesses, whose workers tend to have less education and lower incomes. Moreover, because the FMLA only required unpaid parental leave, it has provided more help to families that can afford to live without a paycheck. Similarly, families earning over $50,000 have been the main beneficiaries of the new Child Tax Credit (Howard 2007a, 2007b; U.S. Congress 2007). Such policies are a good way to expand a welfare state without making much progress against poverty or inequality.

A number of older social programs fit this same profile. The clearest evidence comes from the largest tax expenditures. The U.S. tax code has provided a huge (roughly $100 billion/year) and growing subsidy for private pensions. On average, one-half of U.S. workers participated in some sort of tax-favored retirement plan in 2003. But averages can be deceiving. The participation rates ranged from 20 percent for workers earning less than $20,000 to 80 percent for workers earning over $120,000. Higher-income workers also contributed more money to their plans and thus received a larger per capita subsidy from the government.
Sheils and Haught (2004) have calculated that the value of tax breaks for private health insurance were worth ten times more to a family earning over $100,000 compared to a family earning less than $20,000. Taxpayers earning over $100,000 claimed over two-thirds of the value of the home mortgage interest deduction, the nation’s largest housing program (U.S. Congress 2007). Considering that homes are the largest single asset for many families, this tax break also affects inequalities in wealth. In short, every additional dollar spent on these kinds of social programs may actually aggravate inequality.

While the American welfare state has been giving more to the haves, it has been taking away some benefits from the have-nots. Although deep cuts have been uncommon, they have disproportionately affected the poor and near-poor. They were the people who lost jobs when officials terminated the PSE program; they were the ones who were kicked off welfare or denied Food Stamps after 1996. Inaction also hurt. When state governments repeatedly failed to increase welfare and unemployment benefits, the value of those benefits gradually eroded in the face of inflation. The percentage of jobless workers receiving unemployment benefits dropped in part because eligibility rules were not modified to account for the growing number of part-time and low-wage workers (Graetz and Mashaw 1999). In many ways, the social safety net has been compromised. Little wonder that poverty stopped declining and severe poverty has been on the rise.

**Party Politics and Social Policy**

Now that readers have some idea of what happened to the American welfare state in recent years, we can investigate how and why. For much of the 20th century, there was a clear connection between party politics and social policy in the United States. The formative moments
of the American welfare state were the mid-1930s and mid-1960s, precisely when Democrats were at their strongest. Presidents Franklin Roosevelt and Lyndon Johnson were two of the most liberal presidents in U.S. history, and their party enjoyed historic two-to-one majorities in Congress. Under these conditions, Democratic architects of the welfare state simply overwhelmed whatever opposition Republicans could muster. While the Democratic Party has hardly ever been socialist or social democratic, it has clearly been the nation’s left-wing party for a long time. Its central role in building the American welfare state fits the classic model of parties and social policy (Howard 2007a).

Since the 1970s, the role of political parties has been more complicated. Consider, for instance, the legislative milestones of recent decades. It did not seem to matter which party controlled the White House. The Clinton administration signed off on the Family and Medical Leave Act, new HIPAA health regulations, and the Child Tax Credit, which was exactly what we expect Democrats to do. But a number of social programs were enacted during Republican administrations. The Earned Income Tax Credit (Gerald Ford), the Americans with Disabilities Act (George Bush), and the new drug benefit for seniors (George W. Bush) were the most prominent examples. In terms of size and scope, these programs were every bit as important as those passed under Clinton. The most notable failure, the Clinton health plan, occurred when Democrats controlled the White House and both houses of Congress. Although President Reagan cut or eliminated several means-tested programs in 1981, the 1996 welfare reform law signed by President Clinton was arguably more severe. It was Clinton, after all, who promised to “end welfare as we know it.”

Trends in social spending have also been confusing. The nation’s welfare state effort declined during the Reagan administration. That was not a big surprise. But it also declined
under Clinton. Thank goodness for the Bush family. Social spending increased during the father’s administration and the son’s first term, and those gains more than offset what happened under Reagan and Clinton. Spending also grew during President Carter’s time in office (OECD n.d., 1985, 2007a).

Democratic administrations have performed somewhat better than their Republican counterparts on key social indicators. The poverty rate reached a lower point under Carter (11.4%) and Clinton (11.3) than it ever did under Reagan (13.0), Bush I (12.8), or Bush II (11.7). Of all these presidents, only Clinton made any real progress against poverty. Analyzing the distribution of income between 1948 and 2001, Bartels (2004) has shown that inequality grew considerably faster when Republicans were in the White House. While this pattern held true for the entire post-WWII era, it was less pronounced for the period after 1975. As measured by the Gini index, inequality was basically unchanged in the Carter years and actually increased a bit under Clinton (Democrats made a bigger dent in inequality under Presidents Kennedy and Johnson). Inequality definitely has grown under the three most recent Republican administrations (DeNavas-Walt, Proctor, and Smith 2007).

Once again, conflicting patterns of policy choices, outputs, and impacts may help us sort out current debates. In the U.S. case, scholars who focus on poverty and inequality are likely to believe that political parties remain an important influence on the welfare state. Scholars who focus on legislation and spending patterns will be less convinced, and may therefore stress factors such as demographics or public opinion.7

The rest of this chapter will explore in more depth the behavior of the two major parties. Essentially, Democrats seem to have done less than expected to promote the welfare state, and Republicans seem to have done more. Why? It is possible that looks are deceiving. Democrats
may have been the leading advocates for expansion and Republicans may have led the charge for retrenchment. But, after so many years of divided government and the electorate split so evenly between Democrats and Republicans, each party had to make difficult concessions – in a word, logrolling. As we shall see below, this account is seriously incomplete. There have been numerous times when Democrats and Republicans willingly embraced social policies that seemed at odds with their classic reputations.

A more plausible explanation is party convergence: as (some) Democrats moved right and (some) Republicans moved left, the policy differences between them diminished. Finding common ground became easier, though seldom easy. To make this account persuasive, we need to explain why the two parties shifted, and why they agreed to create new social programs and increase social spending but not to do more about poverty and inequality.\textsuperscript{8}

\textit{Democrats}

In several respects, the Democratic vision of social policy has changed since the 1960s. More accurately, the views of many Democratic officials have moderated. The party is still so large and diverse that broad generalizations are hard to make; some contemporary Democrats would have been quite at home in the New Deal or Great Society. For the most part, though, the current generation of party leaders has stressed equality of opportunity over result, economic growth over redistribution, and work over welfare. They have preached fiscal discipline and become more concerned about deficits. One should not exaggerate the extent of change. The New Deal relied on a combination of work programs and cash relief. The Economic Opportunity Act of 1964 was one of the milestones of the Great Society. In historical perspective, recent changes in the Democratic Party have been modest but meaningful.
Some of the clearest evidence of change came from the party’s approach to poverty. Gerring (1998) has analyzed the acceptance speeches of Democratic nominees for the presidency. He found that references to the poor and underprivileged peaked in the 1960s and then dropped off. Clinton’s 1992 speech barely mentioned the subject at all. In 1968, the official Democratic platform trumpeted the party’s success in reducing poverty. It argued that the government’s War on Poverty was working and should be expanded. The view from 1996 was far less sanguine: “Today's Democratic Party knows there is no greater gap between mainstream American values and modern American government than our failed welfare system .... Thanks to President Clinton and the Democrats, the new welfare bill imposes time limits and real work requirements – so anyone who can work, does work, and so that no one who can work can stay on welfare forever.” Tellingly, the 1996 discussion of welfare appeared in the section of the platform titled Responsibility in which the Democrats also discussed crime and illegal immigration. Subsequent party platforms have reiterated the themes of work and individual responsibility when discussing poverty.

More than ever, Democrats came to believe that a strong economy was the best way to fight poverty. Democrats have wanted to keep unemployment low, interest rates low, and wages growing. Reducing the deficit was a key step in accomplishing these goals. Before President Clinton tried to reform health care or welfare, his first budget relied on a combination of tax increases and spending cuts to lower the deficit.

Nevertheless, Democratic officials knew that a rising economic tide would not lift all boats high enough or fast enough; targeted aid would still be needed. They proceeded to draw a bright line between the working and non-working poor. The former group would get additional money from the government; the latter would get a stronger push to earn money. The Earned
Income Tax Credit attracted considerable Democratic support and grew rapidly during the 1980s and 1990s. By definition, the EITC benefits only those who work for wages. It now serves many more families than TANF and costs a lot more, too. At the same time, Democrats helped Republicans cut spending on traditional welfare programs, notably in 1981 and 1996. Democrats helped tighten up eligibility rules and work requirements. They tried to collect more child support from absent parents. They shifted more spending away from income support and toward services such as child care and transportation that would help welfare recipients find employment (Howard 2007a; Weaver 2000).

At a more general level, Democrats have changed how they design social programs. During the New Deal and Great Society, the main options were social insurance and grants. Democrats have since shied away from creating social insurance programs, in large part because they wanted to avoid additional payroll taxes. Clinton officials used all kinds of mechanisms to finance health reform – higher tobacco taxes, administrative savings, contingent caps on insurance premiums, and a complicated set of charges on employers – but not payroll taxes. Explaining just how these numbers added up proved to be a major hurdle for the administration (Skocpol 1996). While Congressional Democrats objected to several features of Bush’s proposed drug benefit for the elderly, few wanted to rely on payroll taxes rather than the combination of general revenues and monthly premiums that eventually passed. These choices were part of a larger change in policy discourse (Campbell and Morgan 2005). Since the 1970s, conservatives in the United States have been increasingly successful at focusing policy debates on the question of financing. For their part, liberals grew concerned about the regressive nature of existing payroll taxes and their impact on lower- and middle-income families. As a result, many Democratic officials came to view payroll taxes as unfair. The heavy focus on taxes
obscured the impact of benefits, which in social insurance programs like Social Security clearly favors lower-income workers. With payroll taxes off the table, “the American welfare state lost a major source of financing, stymieing redistributive initiatives for decades to come” (Campbell and Morgan 2005: 180).

Democrats embraced other policy tools whose costs were less evident. Tax expenditures gained favor because they looked as much like tax cuts as spending. Democrats could (and did) say that the EITC and Child Tax Credit helped working families keep more of their hard-earned dollars. Tax expenditures have not been featured prominently in official budget documents, a practice which also obscured their cost. Social regulations such as the Americans with Disabilities Act and the Family and Medical Leave Act required businesses and individuals to change their behavior; their budgetary cost to the government was minimal. Instead of paying for parental leave, the government told many employers to give their workers unpaid leave, and effectively told parents who wanted such leave to find a way to live on less income. Instead of enacting national health insurance, the government tried to make private health insurance more available. While these policy tools were politically attractive, their real-world performance left something to be desired. As mentioned earlier in the chapter, many of these tax expenditures and social regulations benefit the haves more than the have-nots (Howard 2007a).

These changes were connected to the rise of the so-called New Democrats (Baer 2000; Hale 1995). Stung by the Party’s electoral defeats in the 1980s, a number of moderate and conservative Democrats joined forces to chart a new path. Republicans won not only the presidency but also the Senate in 1980, the first time in a generation that Democrats failed to control both houses of Congress. President Reagan won re-election in 1984 by a huge margin, capturing 49 out of 50 states. To become competitive again, New Democrats wanted their party
to shed its tax-and-spend image and promote a leaner, more efficient government. They wanted to shift responsibility away from Washington and to lower levels of government, businesses, and individuals. New Democrats wanted to spend less time helping specific groups of disadvantaged citizens and more time helping the middle class, broadly defined. They talked often about the ability of economic growth to promote the American Dream. This new vision would, in theory, appeal to a wider range of voters and enable the Democratic Party to win national elections more consistently. The creation of the Democratic Leadership Council and the Progressive Policy Institute gave New Democrats formal mechanisms for generating ideas and communicating with one another. Clinton’s election and re-election gave them a president who shared many of their goals and managed to translate their vision into specific social programs. Neither Al Gore nor John Kerry departed from this vision when they campaigned for president in 2000 and 2004, respectively.10

Within Congress, however, were many Old Democrats who still believed in the New Deal/Great Society model. When candidate Bill Clinton promised to spend billions of additional dollars to improve the nation’s infrastructure, these Democrats were hopeful. When President Clinton failed to deliver, they were dismayed. Although Clinton felt that Canadian-style national health insurance was a political non-starter, the liberal wing of his party disagreed and introduced single-payer legislation (Skocpol 1996). On more than a few occasions, Old Democrats viewed New Democrats with suspicion, if not hostility. The New Democrats, they argued, were turning their party into a watered-down version of the Republican Party. There were enough Old Democrats in positions of power to constitute a major bloc within Congress.

Each wing of the Democratic Party felt that it was more in touch with public sentiment, and in a sense both were right. Opinion surveys consistently showed that Americans wanted
government to spend more on a variety of social problems, from retirement pensions and health care to education and child care. Sizable majorities believed that the largest social programs – Social Security, Medicare, and Medicaid – were vital functions of government. All of this was good news for traditional Democrats. On the other hand, Americans have long held serious misgivings about welfare as well as mixed feelings about helping the unemployed and reducing inequality. In 1980, less than half (43%) of respondents agreed that “the government in Washington ought to reduce the income differences between the rich and the poor.” After two decades of growing inequality, one would expect a bigger audience for redistributive policies. Nevertheless, essentially the same number (44%) agreed with that statement in 2000 (Gilens 1999; Howard 2007a). These views concerning social policy were more in keeping with the New Democrats. Put another way, ordinary Americans have been more supportive of policy outputs than outcomes.

Over the last few years, the friction between New and Old Democrats has diminished. Much of the credit belongs to George W. Bush, whose presidency helped Democrats realize that the differences among them were not nearly as important as the differences separating the two parties. To some degree, however, important elements of the New Democrats’ creed have become accepted within the entire party. Increasingly, almost all Democratic officials preach fiscal discipline. They criticize the GOP for running deficits and expect new government programs to be deficit-neutral. After Democrats re-captured the House of Representatives in 2006, incoming Speaker Nancy Pelosi declared that “‘Democrats understand the importance of a growing and vibrant economy’ … To be successful, ‘you have to govern from the middle’” (Dunham 2006: 37; see also Scheiber 2007). The leading Democratic presidential candidates in 2008, Hillary Clinton and Barack Obama, have proposed a number of new programs for health
care, retirement pensions, housing, and education. Most of them rely to some degree on tax breaks. None of them qualifies as social insurance.\textsuperscript{11}

Republicans

Between 1975 and 2008, Democrats controlled government for a grand total of six years – four under President Carter and two under Clinton. Apart from a few years of Republican control, the dominant pattern has been divided government. Republicans have won the presidency more often than Democrats. Consequently, our investigation of political parties and social policy should not stop with Democrats; we must spend some time with Republicans. Hardly anyone is surprised to hear that President Reagan cut means-tested programs, or that congressional Republicans led by Newt Gingrich worked overtime to undermine Clinton’s health plan and eliminate welfare as an entitlement. Republicans are supposed to be the party of limited government. The more interesting question is how the American welfare state managed to grow (new programs, additional spending) during a period when the Republican Party was strong and gaining power.

There were times when Republicans were simply outnumbered. For example, the first President Bush vetoed parental leave legislation twice. President Clinton made the issue one of his top priorities and, with the help of a Democratic Congress, enacted the Family and Medical Leave Act early in his administration. At other times, Republicans accepted a small expansion of the welfare state when coupled with other legislation that they strongly preferred; this is how the SCHIP health insurance program passed through a Republican Congress. Likewise, one way to increase the minimum wage has been to offer tax breaks or other benefits to small business at the same time.
Nevertheless, Republicans were important advocates of expansion on several occasions. When Ronald Reagan signed the Tax Reform Act of 1986, which included the first major increase to the Earned Income Tax Credit, he publicly declared the EITC to be “the best antipoverty bill, the best profamily measure, and the best job-creation program ever to come out of the Congress.”\textsuperscript{12} The first President Bush and a number of congressional Republicans pushed for the Americans with Disabilities Act. After the ADA was enacted, Bush referred to it several times as one of the crowning achievements of his administration. An early version of the Child Tax Credit appeared in the GOP Contract with America. HIPAA regulations were contained in the Kennedy-Kassebaum bill, named after their Democratic and Republican co-sponsors. President George W. Bush was instrumental in passage of the new drug benefit for senior citizens. Republicans also defended certain social programs against cutbacks, especially the sizable tax breaks for health insurance, retirement pensions, and housing (Howard 1997, 2007a).

Republicans’ motivation for expanding the welfare state was partly sincere and partly strategic. As mentioned above, Americans want to spend more on key social programs. Interestingly, most self-identified Republicans say the same thing. Republican voters expect government to help the elderly, the sick, and the poor, just like Democratic voters do. In 1994, when Republicans made history by capturing both houses of Congress, a large majority of people who called themselves Strong Republicans said that current spending on Social Security was either too little (43\%) or about right (44\%). When President George W. Bush was re-elected in 2004, Republican support for Social Security was if anything a little higher. Moreover, a majority of Republicans in 2004 said that too little was being spent on education and health. Only one out of eight Republicans felt that too much was being spent to help the poor.\textsuperscript{13} In this context, Republican officials may have wanted to slow down the growth of the American welfare
state, but they risked running afoul of their core supporters if they tried to shrink it. Republicans may have even won votes on Election Day by consciously expanding certain social programs. George Bush talked often about helping the disabled during his 1988 presidential campaign, and polls showed that he won an unusually large share of their votes. Garnering support from older Americans was certainly one reason why George W. Bush supported a new drug benefit for them (Howard 2007a).

Strategically, Republican officials have expanded some parts of the American welfare state in order to keep other parts in check. The Earned Income Tax Credit was supposed to keep the poor off welfare and reduce pressure to increase the minimum wage. The Americans with Disabilities Act was designed to move some of the disabled off public assistance and into jobs. Tax breaks for retirement pensions would slow down the growth of Social Security. Tax breaks for employment-related health benefits, and government regulation of those benefits, would make national health insurance unnecessary (Howard 1997, 2007a).

In short, many Republicans have been trying to build a different kind of welfare state, one focused heavily on work and benefits received through work. Such a goal created opportunities for coalitions across party lines, especially with New Democrats. Those two groups could agree to block national health insurance, oppose increases in the minimum wage, abolish welfare as we know it, slow down (but not stop) the growth in entitlement spending, and use the tax code to make social policy. Nonetheless, that kind of welfare state was less capable of fighting poverty and inequality than one based more on social insurance and a reliable safety net.
Conclusion

For much of the 20th century, the American welfare state offered a fairly straightforward bargain. If you elected enough Democrats to national office, they would enact new social insurance and public assistance programs, they would increase spending on these programs, and in turn poverty and inequality would go down. Even if you elected a Republican president, you would still have enough Democratic support in Congress to expand the welfare state (albeit without as many new programs as the New Deal or Great Society). Conceivably, another set of elections like those from 1932-36 and 1958-64 might give Democrats the ability to forge a European-style welfare state, complete with national health insurance. In the meantime, the American welfare state seems to be offering us a new bargain.

In recent decades, it has still been possible to create social programs and increase social spending. But those gains no longer translated into progress against poverty and inequality. A bigger American welfare state has not meant a more effective welfare state. Stated more abstractly, changes in policy choices and outputs have lost their positive effect on key outcomes. Social spending and inequality have also been growing in a number of other wealthy democracies, suggesting that some version of this new bargain has spread.

An understanding of party politics gives us insight into the nature and causes of this new bargain in the United States. Although divided government has been the norm, and divided government is usually thought to produce gridlock, the last few decades have witnessed many changes in social policy. Considering how evenly matched the two parties were, a group of modest size could have a large impact on policymaking. The emergence of New Democrats paved the way for a number of cutbacks and additions to the American welfare state. New Democrats could work with Republicans in ways that traditional Democrats could not. Their
cooperation produced the largest overhaul of welfare in decades and a sizable new tax credit for families with children. They helped steer debate over new programs away from social insurance and toward tax expenditures. They helped shift benefits away from the have-nots and toward the haves.

Changes within the Republican Party mattered as well. Here a little historical perspective may help. Republican presidential candidates in the 1930s demanded the repeal of Social Security. In the 1960s, GOP members of Congress portrayed Medicare as the entering wedge of socialism (Howard 2007a). That doesn’t happen any more. Republicans have learned that while they can end welfare as we know it and cut benefits for poor immigrants, most of the American welfare state is quite popular. The fundamental question is not whether the United States will have a welfare state, but what kind it will be. Republicans have answered that question by trying to limit the growth of social insurance and public assistance programs. Sometimes that meant creating or expanding other kinds of social programs, particularly tax expenditures and social regulations. It would be interesting to know if right-wing parties in other countries have behaved similarly, combining cuts to certain social programs with careful expansion of other programs.

This new bargain – do more, achieve less – may not strike readers as very desirable. True, the American welfare does reduce poverty and inequality. It just doesn’t do either as well as it used to, or as well as most other wealthy democracies do now. What this new bargain lacks in performance, however, it makes up for in political viability. Current trends in social policy mirror trends in political participation. The odds of voting, campaigning, donating money, contacting officials, and belonging to interest groups all increase with income, education, and age (Campbell 2003; Jacobs and Skocpol 2005; Verba, Schlozman, and Brady 1995). At a time when the two parties were so evenly matched, and control of government changed so frequently,
Democrats and Republicans worked consistently to expand social benefits for the politically strong and, periodically, to retrench programs for the politically weak. Clinton wanted the Child Tax Credit to show middle and upper-middle class families that the Democratic Party had not forgotten them. Bush wanted the new drug benefit to show that Democrats were not the only ones who cared about senior citizens. Members of both parties pushed welfare reform to show middle-class voters that welfare dependence among the poor would no longer be tolerated. Members of both parties protected tax breaks for housing, health care, and pensions, all of which were targeted at the more affluent members of society.

In effect, the basic measures of success and failure may be shifting in the United States. Outcomes matter, but the drop in welfare rolls is more significant than any change in poverty. Inequality is important, but the gap between the middle class and the rich counts for more than the gap between rich and poor. This is not exactly the welfare state that Franklin Roosevelt and Lyndon Johnson helped to build. But it is the welfare state that the latest generation of Democrats has helped to remodel.
BIBLIOGRAPHY


ENDNOTES

1 I am following Van Evera’s advice (1997) to choose cases with extreme values on the dependent variable and a large degree of variation on the independent variable. The American case is also “data rich,” another of Van Evera’s criteria for case selection.

2 Although modifications to existing social programs, such as eligibility rules and benefits, also count as policy choices, they are too numerous and varied to discuss in the space of this chapter. If the general trend of these modifications is to expand or contract the welfare state, we should find evidence in social spending, poverty, or inequality.

3 Officials also passed the Medicare Catastrophic Coverage Act in 1988, but repealed it in 1989.

4 Although the OECD tracks social spending back to at least 1960, the categories used before 1980 are not entirely comparable with those after 1980 (OECD 1985).

5 The postwar low was 11.1 percent, in 1973.

6 Unless otherwise noted, all references to income inequality in this chapter are based on disposable income, after taxes and transfers.

7 I agree with Huber and Stephens (2001) that globalization does not seem to have exerted a major influence on the American welfare state. For one thing, globalization is supposed to trigger higher unemployment, which in turn causes public officials to retrench their social programs. The pattern in the United States has been almost the opposite: although unemployment declined during the Reagan and Clinton administrations, so too did welfare state effort; as unemployment increased during the first Bush administration, so did welfare state effort. Moreover, rather than being across-the-board, spending cuts in the United States have been targeted at means-tested programs.

8 There is a sizable literature about the increasing polarization of parties in the United States (see, e.g., Layman, Carsey, and Horowitz 2006 and the many studies cited therein; McCarty, Poole, and Rosenthal 2006). In many areas of American politics, polarization has been quite apparent. But, as I show later in this chapter, Republicans and Democrats have found ways to work together when creating new social programs and modifying existing programs.

9 Democratic Party platforms can be accessed via www.presidency.ucsb.edu/platforms.php.

10 Bertram (2007) shows that the conservative wing of the Democratic Party started to reshape antipoverty policies away from welfare and toward work starting in the early 1970s.


These figures are based on responses to the General Social Survey, which can be accessed via http://sda.berkeley.edu/archive.htm.